

Message Text

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ACTION NEA-10

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FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC 7495
INFO AMEMBASSY NEW DELHI

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NEW DELHI FOR AGATT

E.O. 11652: N/A
TAGS: EAID, EAGR, ECON, EALR, PINT, CE

SUBJ: CONSUMPTION OF RICE AND FLOUR LOWER THAN EXPECTED

REF: (A) COLOMBO 1545; (B) COLOMBO 1401; (C) COLOMBO 1212

1. SUMMARY: THE PRESENT CONSUMPTION OF RICE UNDER THE RATION PROGRAM AND WHEAT FLOUR IS LESS THAN EXPECTED, AND THE FOOD COMMISSIONER'S DEPARTMENT (FCD) IS FACED WITH A PROBLEM OF OVER SUPPLY. LOW OPEN MARKET RICE PRICES FOLLOWING A RECORD PADDY HARVEST APPEAR TO HAVE SHIFTED DEMAND, BUT TRANSPORTATION PROBLEMS MAY ALSO HAVE CONTRIBUTED TO THE LOWER LEVEL OF CONSUMPTION. AS CONTRACTS HAVE ALREADY BEEN SIGNED FOR A LARGE VOLUME OF RICE IMPORTS, THE FCD IS CUTTING BACK ON ITS PURCHASES OF LOCAL RICE FROM THE PADDY MARKETING BOARD (PMB). SHOULD THE PMB BE FORCED TO LIMIT ITS FIXED-PRICE PURCHASES FROM THE FARMERS, THE ADDITIONAL PADDY IN THE OPEN MARKET COULD LEAD TO A FURTHER REDUCTION IN PRICES AND REDUCED FARM PROFITS. IN THE CASE OF FLOUR, THE FCD NOW EXPECTS BOTH IMPORTS AND THE PRODUCTION OF THE STATE FLOUR MILLING CORPORATION (SFMC) WILL

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BE LESS THAN PROJECTED IN REFTEL A. THE FCD CLAIMS THAT THE LARGE BACKLOG OF FOOD SHIPS WAITING TO BE UNLOADED WILL BE ELIMINATED BY THE END OF JUNE. END SUMMARY.

2. RICE: ACCORDING TO THE FCD, IF EVERYONE DREW THE FULL CURRENT RATION OF FOUR POUNDS PER WEEK, MORE THAN 100,000 TONS OF RICE WOULD BE DISTRIBUTED EACH MONTH. BUT, WHEN THE WEEKLY

RATION WAS INCREASED TO FOUR POUNDS (REFTEL B), THE FCD THOUGHT THE ACTUAL MONTHLY DRAWDOWN WOULD BE ONLY ABOUT 80,000 TONS DUE TO COMPETITION FROM CHEAPER WHEAT FLOUR AND THE DECLINING OPEN MARKET PRICE OF RICE FOLLOWING A RECORD SPRING (MAHAL HARVEST. IN FACT, HOWEVER, IN THE SIX WEEKS THAT THE FOUR POUND RATION HAS BEEN IN EFFECT, ACTUAL CONSUMPTION HAS AVERAGED ONLY ABOUT 65,000 TONS PER MONTH.

3. DESPITE PRESS ARTICLES ABOUT FOOD SHORTAGES IN SOME PARTS OF THE COUNTRY DUE TO INADEQUATE TRANSPORTATION FACILITIES, THE FCD DENIES THAT TRANSPORTATION IS THE PROBLEM AND SAYS THERE ARE ADEQUATE STOCKS OF RICE AND FLOUR IN ALL PARTS OF THE ISLAND. TO SUPPORT THIS VIEW, THE FCD CLAIMS THAT THE CONSUMPTION OF FREE RICE HAS BEEN NORMAL AT ABOUT 27,000 TONS PER MONTH (UNDER THE RATION, EVERY PERSON WHO DOES NOT PAY INCOME TAX RECEIVES ON FREE POUND OF RICE PER WEEK). THE CONSUMPTION SHORTFALL HAS BEEN IN THE THREE POUND PART OF THE RATION SOLD AT A RUPEE A POUND.

4. THE FCD IS SOMEWHAT PUZZLED BY THIS LOW LEVEL OF CONSUMPTION (PARTICULARLY SINCE WHEAT FLOUR CONSUMPTION IS ALSO A BIT LESS THAN EXPECTED, SEE BELOW). THE RCD THINKS THAT DUE TO THE VERY POOR QUALITY OF MOST RATION RICE (PL 480 RICE EXCEPTED), MANY PEOPLE PREFER TO TAKE ONLY THE FREE POUND ON RATION AND THAN PURCHASE THE REMAINDER OF THEIR NEEDS IN THE OPEN MARKET WHERE BETTER QUALITY RICE IS AVAILABLE AT RS. 1.10 TO RS. 1.20 PER POUND. (COMMENT: DESPITE THE FCD'S DENIAL, THE EMBASSY BELIEVES THAT THERE ARE FOOD-SHORT AREAS DUE TO A SHORTAGE OF TRUCKS AND TO RAILWAY STRIKES AND SLOWDOWNS, AND THAT THIS IS LIMITED OFFICIAL USE

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A FACTOR IN THE LOW CONSUMPTION LEVELS.)

5. THE FCD NOW ESTIMATES THAT TOTAL CONSUMPTION OF RATION RICE WILL BE APPROXIMATELY 750,000 TONS IN 1977, DOWN FROM 875,000 PROJECTED EARLIER THIS YEAR. AS THE FCD HAS ALREADY CONTRACTED FOR THE FULL 503,000 TONS OF RICE IMPORTS PROJECTED IN REFTEL A, PURCHASE OF LOCALLY PRODUCED RICE FROM THE PMB ARE EXPECTED TO TOTAL ONLY ABOUT 250,000 TONS THIS YEAR RATHER THAN THE 375,000 TONS PROJECTED EARLIER. HAVING COMMITTED ITSELF TO A HIGH LEVEL OF RICE IMPORTS, THE FCD NOW FINDS ITSELF IN A PECULIAR POSITION; INSTEAD OF PURCHASING THE TOTAL OUTPUT OF THE PADDY MARKETING BOARD (PMD) (WHICH BUYS PADDY AT A GUARANTEED PRICE OF RS.33 PER BUSHEL) AND DEPENDING ON IMPORTS TO MAKE UP ANY SHORTFALLS IN DOMESTIC PROCUREMENT, THE FCD HAS REVERSED THIS PROCEDURE AND IS USING IMPORTS TO PROVIDE THE BULK OF THE RATION RICE WITH LOCAL PRODUCTION SUPPLYING THE RESIDUAL WHICH IS ADJUSTED TO MEET CHANGES IN DEMAND.

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INFO OCT-01 ISO-00 AGR-01 AID-05 CIAE-00 INR-07
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6. IN THE FIRST FIVE MONTHS OF THIS YEAR, THE PMB PURCHASED OVER 12 MILLION BUSHEL OF PADDY (EQUIVALENT TO APPROXIMATELY 172,000 TONS OF MILLED RICE). THIS COMPARES WITH 12.8 MILLION BUSHEL BOUGHT IN ALL OF 1976. DURING THE SAME FIVE MONTH PERIOD, HOWEVER, THE FCD PURCHASED ONLY 52,000 TONS OF RICE FROM THE PMB, WHICH LEFT THE PMB HOLDING 120,000 TONS OF RICE OR ITS PADDY EQUIVALENT (8.4 MILLION BUSHEL). ACCORDING TO THE FCD, THE RELATIVELY SMALL AMOUNT OF RICE BOUGHT FROM THE PMB WAS DUE TO AN INCREASE IN THE FCD'S MINIMUM QUALITY STANDARDS WHICH THE PMB HAD DIFFICULTY MEETING. WHEN THE NEW FOOD COMMISSIONER, P.M. HASSAN, TOOK OFFICE LAST MARCH, HE CLAIMED TO BE SHOCKED BY THE POOR QUALITY OF RICE AND OTHER FOODSTUFFS BEING DISTRIBUTED UNDER THE RATION PROGRAM. ALTHOUGH MOST IMPORTED RICE CONTINUES TO BE OF WRTECHED QUALITY (UP TO 100 PERCENT BROKENS, FOR EXAMPLE), THE FCD HAS RAISED ITS MINIMUM STANDARDS FOR LOCALLY MILLED RICE AND WHEAT FLOUR, AND PURHCASES FROM THE PMB AND THE STATE FLOUR MILLING CORPORATION (SFMC) (SEE BELOW) ARE WELL BELOW ORIGINAL PROJECTIONS.

7. WITH A RECORD PADDY CROP LIKELY THIS YEAR (REFTEL A), AND WITH THE CONSUMPTION OF RATION RICE LOWER THAN EXPECTED, THE
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PMB MAY FIND ITSELF CAUGHT BETWEEN HIGH SUPPLY AND LOW DEMAND. FCD OFFICIALS PRIVATELY ADMIT THAT THE PMB MAY HAVE TO REDUCE ITS PURCHASES OF PADDY. WHILE THE PMB IS SUPPOSED TO BUY ALL THE PADDY OFFERED UNDER THE GUARANTEED PRICE SCHEME, IT CAN USE QUALITY AS AN EXCUSE FOR REJECTING PADDY. THIS COULD SHIFT MORE PADDY INTO THE OPEN MARKET LEADING TO A FURTHER REDUCTION IN PRICES AND REDUCED RETURNS TO THE FARMER.

8. WHEAT FLOUR: THE MONTHLY CONSUMPTION OF WHEAT FLOUR IS CURRENTLY RUNNING AT ABOUT 45,000 TONS. THIS IS A BIT LESS THAN THE 48,000 TO 50,000 TON LEVEL THE FCD EXPECTED AT THIS TIME OF THE YEAR (REFTEL A). THE FCD NOW ESTIMATES TOTAL 1977 FLOUR CONSUMPTION AT ABOUT 570,000 TONS, SOMEWHAT LESS THAN THE 582,000 TONS PROJECTED IN REFTEL A. IMPORTS ARE NOW ESTIMATED AT AROUND 530,000 TONS, DOWN FROM 575,000 TONS IN REFTEL A, AND PURCHASES FROM THE SFMC WILL BE ABOUT 70,000 TONS RATHER THAN 104,000 TONS. THE 30,000 TONS DIFFERENCE BETWEEN IMPORTS PLUS SFMC PURCHASES UOD CONSUMPTION WILL BE ADDED TO END OF YEAR STOCK.

9. THE MAJOR PROBLEM WITH FLOUR HAS BEEN THE DELAY IN UNLOADING SHIPS. A NUMBER OF FLOUR SHIPS, INCLUDING THE AEGIS PROGRESS WITH 20,000 TONS OF PL 480 FLOUR, HAVE HAD TO WAIT AS LONG AS TWO MONTHS FOR BERTH SPACE. EVEN THOUGH SOME SHIPS HAVE BEEN DIVERTED TO TRINCOMALEE AND GALLE, THERE ARE STILL MORE THAN TEN SHIPS WAITING TO UNLOAD IN COLOMBO. DEMURRAGE COSTS MAY EXCEED \$1 MILLION, AND THERE IS CONCERN THAT SOME FLOUR (AND RICE) MAY NOT BE FIT FOR HUMAN CONSUMPTION WHEN FINALLY UNLOADED. THE BASIC PROBLEM HAS BEEN A LACK OF TRUCKS TO MOVE GOODS OUT OF THE PORT AND THIS HAS BEEN AGGRAVATED BY RAILWAY STRIKES AND SLOWDOWNS. ONE OFFICIAL HAS ESTIMATED THAT AT LEAST 500 MORE TRUCKS ARE NEEDED TO MEET MINIMUM TRANSPORTATION NEEDS EVEN WHEN THE RAILROAD IS WORKING NORMALLY.

10. THE FCD SAYS THAT THE BUNCHING OF FOOD SHIP ARRIVALS IN APRIL AND MAY IS OVER AND THAT THE PORT BACKLOG SHOULD BE LIMITED OFFICIAL USE

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ELIMINATED BY THE END OF JUNE. WITH THE EXCEPTION OF ABOUT 25,000 TONS OF FLOUR FROM EUROPE DUE AT THE END OF THE YEAR, THE ONLY OTHER FLOUR SHIPMENTS SCHEDULED TO ARRIVE DURING THE REMAINDER OF THIS YEAR ARE THE SECOND 100,000 TONS UNDER THE FY 77 PL 480 TITLE I AGREEMENT. THE FCD INSISTS THERE WILL BE NO UNNECESSARY UNLOADING DELAYS WHEN THE SECOND 100,000 TONS OF PL 480 FLOUR BEGINS TO ARRIVE IN THE LATTER PART OF JULY.

11. THE REDUCTION IN THE AMOUNT OF FLOUR TO BE PROVIDED BY THE SFMC IS DUE, ACCORDING TO THE FCD, TO PROBLEMS THE LOCAL MILL HAD IN MEETING THE HIGHER QUALITY STANDARDS. THE SFMC'S MILL WAS CLOSED DURING MAY AND RESUMED PRODUCTION IN EARLY

JUNE AT A REDUCED LEVEL OF OUTPUT. (COMMENT: SINCE THERE

IS LITTLE THE SFMC CAN DO TO CHANGE THE QUALITY OF ITS FLOUR
WITHOUT CHANGING THE TYPE OF WHEAT IT USES, AND THE SUPPLY
OF AUSTRALIAN WHEAT UNDER THE CURRENT CONTRACT WILL NOT BE
EXHAUSTED UNTIL THE DECEMBER, THE QUALITY DISPUTE APPEARS TO
BE ONLY AN EXCUSE TO CUT PRODUCTION.)

PERKINS

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Message Attributes

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